



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana State Lottery
For the Two Fiscal Years Ended
June 30, 2022

MAY 2023

LEGISLATIVE AUDIT
DIVISION

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2021, was issued June 21, 2022. The Single Audit Report for the two fiscal years ended June 30, 2023, will be issued by March 31, 2024.

AUDIT STAFF

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

May 2023

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the Montana State Lottery (lottery) for the two fiscal years ended June 30, 2022. Our audit focused on revenues, expenses, and account balances primarily related to online and scratch ticket games and sports betting activity. We reviewed the lottery's control systems and determine the reasonableness of the lottery-prepared financial statements and notes. Our Independent Auditor's Report contains an unmodified opinion, meaning a reader can rely on the information presented, and is included on page A-1 of the report.

The lottery's written response to the audit is on page C-1. We thank the Executive Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Montana State Lottery and Sports Wagering Commission	Leo Prigge, CPA, Chair (effective January 2023)	Butte	January 1, 2027
	Jon Metropoulos, Attorney	Helena	December 31, 2024
	Tony Harbaugh, Law Enforcement	Miles City	January 5, 2025
	Dwaine Iverson, Public Member	Shelby	December 31, 2024
	Steve Morris, Public Member	Helena	January 5, 2025
Administrative Officials	Scott Sales, Montana State Lottery Director		
	Bryan Costigan, Montana State Lottery Director of Security		
	Armond Sergeant, Director of Financial Services		
	Philip Charpentier, Information Technology Director		

For additional information concerning the Montana State Lottery, contact:

Armond Sergeant, Director of Financial Services
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT Montana State Lottery

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2022

A report to the Montana Legislature

BACKGROUND

The Montana State Lottery (lottery) began in 1987 and offers both scratch games, online games, and sports betting. Online games currently on sale include multi-state games such as Powerball, Mega Millions, Lucky for Life, and Lotto America, as well as state-specific games such as Montana Cash and Montana Millionaire. The lottery markets an assortment of scratch games, Treasure Play games, that are instant win games. Sports Bet Montana was established in 2021, and revenues exceed expectations. The lottery operating expense, funded from the net proceeds from ticket sales totaled \$5,084,724 in fiscal year 2022.

The Montana Lottery's operating revenues continue to increase, with a total of \$116 million in fiscal year 2022. Driving this increase is record-breaking jackpots in Powerball, which resulted in increased ticket sales, and the continued popularity of Sports Bet Montana. The lottery recorded operating transfers to the state's General Fund of \$15,311,224 and STEM scholarship fund of \$1,500,000 in fiscal year 2022, totaling \$16,811,224.

AUDITOR'S OPINION (page A-1): UNMODIFIED

We determined the financial statements and related note disclosures of the lottery presented fairly the activity of the system, in all material respects, and we issued an unmodified opinion. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the lottery's financial activity, see the financial schedules and notes beginning on page A-5.

RECOMMENDATIONS:

In this report, we issued no recommendations to the Montana State Lottery.

SUMMARY OF AUDIT WORK:

Our audit efforts focused on the lottery's material activity including Estimated Prize Liabilities, Ticket Revenue and Expense, Vendor Fees, Payments for Goods & Services, Payments for Prizes, and Operating Transfers Out.

We completed audit procedures over the presentation of the financial statements, the accompanying note disclosures and the adoption of *Governmental Accounting Standards Board Statement No. 87, Leases*.

We also completed audit work to determine if the lottery implemented the one recommendation in the prior audit report. In that report, we recommended that the lottery complies with state law by properly recording all sports betting revenue and expenses on the primary accounting system. We concluded the lottery fully implemented the recommendation.

For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

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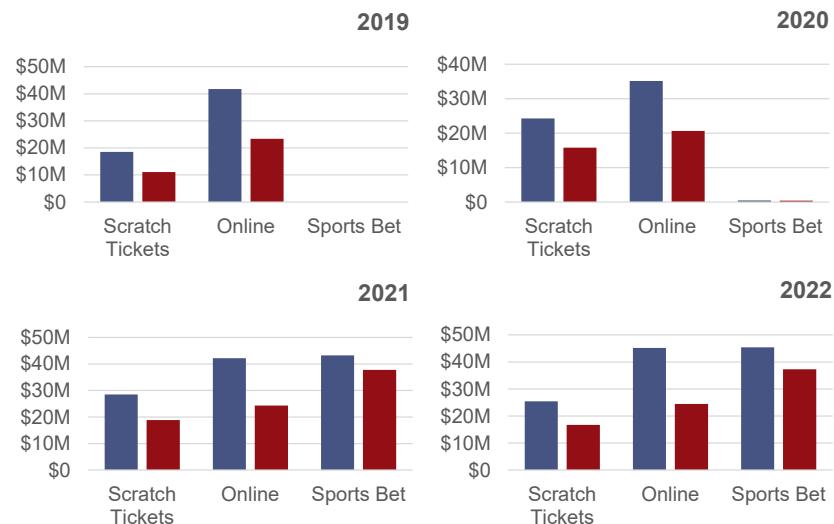
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LOTTERY ACTIVITY SUMMARY:

During fiscal year 2022, the lottery offered scratch tickets, Powerball, Montana Cash, Lotto America, Mega Millions, Lucky for Life, Big Sky Bonus, Treasure Play, Montana Millionaire, and Sports Bet Montana. State law requires a minimum of 45 percent of the money paid for tickets and chances on lottery games to be used for prizes. Sales in fiscal year 2022 had a composite prize payout of 68 percent. The figure below breaks out the revenues and expenses by game over the last four years.

While sports betting brought in the most **revenue**, online gaming revenue most exceeded **expenses**.



REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Independent Auditor's Report and Lottery Financial Statements

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

Opinions

We have audited the financial statements of the Montana State Lottery (lottery), an enterprise fund of the State of Montana, which are comprised of the Statement of Net Position as of June 30, 2022, and 2021, and the related Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows for the fiscal years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the lottery as of June 30, 2022, and 2021, and the changes in net position and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the lottery and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the accompanying financial statements are intended to present the financial position, the changes in financial position, and cash flows of only the lottery enterprise fund. They do not purport to, and do not, present fairly the financial position of the State of Montana, as of June 30, 2022, and 2021, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair

presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the lottery's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the lottery's internal control. Accordingly, no such opinion is expressed.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ◆ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the lottery's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2023, on our consideration of the Montana State Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montana State Lottery's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 21, 2023

MONTANA LOTTERY
STATEMENT OF NET POSITION
JUNE 30, 2022 AND 2021

	2022	Restated 2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,303,927	\$ 3,009,215
Receivables (Net)	7,501,327	3,979,610
Multi-State Reserve Fund	65,000	65,000
Inventories	527,376	525,183
Prepaid Expenses	27,018	19,809
TOTAL CURRENT ASSETS	10,424,648	7,598,817
NONCURRENT ASSETS		
Computer, Furniture & Equipment	589,765	664,636
Leasehold Improvements	112,322	98,793
Accumulated Depreciation	(568,333)	(596,441)
Intangible Right to Use Buildings	1,140,798	1,337,328
Accumulated Amortization	(207,418)	(196,530)
Multi-State Reserve Fund	987,029	1,003,243
TOTAL NONCURRENT ASSETS	2,054,163	2,311,029
DEFERRED OUTFLOW OF RESOURCES		
Pension Deferred Outflows	478,490	567,499
OPEB Deferred Outflows	299,107	290,331
TOTAL DEFERRED OUTFLOWS OF RESOURCES	777,597	857,830
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
	\$ 13,256,408	\$ 10,767,676
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 1,118,589	\$ 958,260
Estimated Prize Liability	3,455,810	3,533,831
Transfer Obligations	5,430,899	2,855,865
Building Lease Payable	202,840	201,090
Unearned Revenue	332,005	236,555
Accrued Compensated Absences	158,894	113,027
TOTAL CURRENT LIABILITIES	10,699,037	7,898,628
NONCURRENT LIABILITIES		
Building Lease Payable	736,868	939,708
Multi-State Prize Liability	929,185	924,365
Accrued Compensated Absences	118,954	147,146
Net Pension Liability	1,841,526	2,448,441
Other Post Employment Benefits	359,503	382,400
TOTAL NONCURRENT LIABILITIES	3,986,036	4,842,060
DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflows	759,352	161,783
OPEB Deferred Inflows	188,487	83,675
TOTAL DEFERRED INFLOWS OF RESOURCES	947,839	245,458
COMBINED LIABILITIES AND DEFERRED INFLOW OF RESOURCES		
	15,632,912	12,986,146
NET POSITION		
Net Investment in Capital Assets	133,754	166,988
Unrestricted	(2,510,258)	(2,385,458)
TOTAL NET POSITION	\$ (2,376,504)	\$ (2,218,470)

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	Restated 2021
OPERATING REVENUES:		
Scratch Ticket Revenue	\$ 25,461,626	\$ 28,496,364
On Line Ticket Revenue	45,192,964	42,206,384
Sports Bet Ticket Revenue	45,388,398	43,252,416
License, Permits, and Misc	<u>9,873</u>	<u>37,088</u>
 Total Operating Revenues	 116,052,861	 113,992,252
DIRECT GAME COSTS:		
Scratch Ticket Prize Expense	16,738,419	18,838,885
On Line Ticket Prize Expense	24,457,025	24,306,469
Sports Bet Ticket Prize Expense	37,320,279	37,793,594
Retailer Commissions	6,728,262	7,549,522
Cost of Tickets Sold	1,177,622	904,983
Vendor fees	<u>7,932,275</u>	<u>7,431,380</u>
 Total Direct Game Costs	 94,353,882	 96,824,833
 Income Before Operating Expenses	 21,698,979	 17,167,419
OPERATING EXPENSES:		
Advertising	472,978	504,333
Advertising Production	313,245	197,092
Audit Fees	95,067	66,652
Bad Debts Expense	(839)	(1,041)
Communications	242,537	212,875
Contractual Services	181,338	182,674
Depreciation and Amortization	242,951	247,405
Interest - Leases	15,726	20,286
Administrative Service Fee	99,328	85,699
Multi-State Dues	41,388	0
Public Relations	55,303	37,754
Other Expenses	43,276	48,083
Personal Services	2,861,022	2,956,578
Repairs and Maintenance	23,651	12,136
Supplies and Materials	342,468	169,182
Travel	29,467	19,191
Utilities and Rent	<u>25,818</u>	<u>23,650</u>
 Total Operating Expense	 5,084,724	 4,782,549
 Operating Income	 16,614,255	 12,384,870
NONOPERATING REVENUES (EXPENSES):		
Interest Earnings	2,132	3,701
Gain/Loss on Sale of Assets	<u>36,803</u>	<u>0</u>
 Total Nonoperating Revenues(Expenses)	 38,935	 3,701
 Income Before Operating Transfers	 16,653,190	 12,388,571
 Operating Transfers Out - General Fund	 (15,311,224)	 (11,709,354)
Operating Transfers Out - OCHE	(1,500,000)	(1,000,000)
 CHANGE IN NET POSITION	 (158,034)	 (320,783)
 Total Net Position, Beginning of Period	 <u>(2,218,470)</u>	 <u>(1,897,687)</u>
 TOTAL NET POSITION, END OF PERIOD	 <u>\$ (2,376,504)</u>	 <u>\$ (2,218,470)</u>

The accompanying notes are an integral part of these financial statements.

**MONTANA LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	Restated 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts for Sales & Services	\$ 112,627,512	\$ 113,563,596
Payments for Goods & Services	(17,653,096)	(17,610,211)
Payments to Employees	(2,690,624)	(2,641,420)
Payments for Prizes	(78,588,924)	(79,633,180)
Net Cash Provided by Operating Activities	<u>13,694,868</u>	<u>13,678,785</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	(14,236,190)	(11,932,210)
Operating Loan Proceeds (Payment)	0	(80,000)
Net Cash Used For Noncapital Financing	<u>(14,236,190)</u>	<u>(12,012,210)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Fixed Assets	(13,529)	(34,122)
Proceeds from Sale of Fixed Assets	48,033	0
Principal & Interest Payments on Leases	(216,816)	(216,816)
Net Cash Used For Capital Financing	<u>(182,312)</u>	<u>(250,938)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments	2,132	3,701
Received from (Paid to) MUSL Prize Reserve Fund	16,214	34,808
Net Cash Provided (Used) by Investing Activities	<u>18,346</u>	<u>38,509</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(705,288)	1,454,146
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,009,215</u>	<u>1,555,069</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,303,927</u>	<u>\$ 3,009,215</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 16,614,255	\$ 12,384,870
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation & Amortization	242,951	50,875
Interest Expense	15,726	20,286
 Change in Assets and Liabilities:		
Decr (Incr) in Account Receivable	(3,521,717)	(465,566)
Decr (Incr) in Inventories	(2,193)	(120,509)
Decr (Incr) in Prepaid expenses	(7,209)	7,113
Incr (Decr) in Accounts Payable	160,329	(51,609)
Incr (Decr) in Lottery Prizes Payable	(73,201)	1,502,298
Incr (Decr) in Unearned Income	95,450	35,870
Incr (Decr) in Other Post Employment Benefits	73,139	27,335
Incr (Decr) in Pension Liability	79,663	293,447
Incr (Decr) in Compensated Absences Payable	<u>17,675</u>	<u>(5,625)</u>
Total Adjustments	<u>(2,919,387)</u>	<u>1,293,915</u>
Net Cash Provided by Operating Activities	<u>\$ 13,694,868</u>	<u>\$ 13,678,785</u>

MONTANA LOTTERY
Notes to the Financial Statements
June 30, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Annual Comprehensive Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting entity.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Property and equipment. Property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts. Gain or loss on disposal is reflected in non-operating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of three to ten years. The Lottery conforms to the State of Montana capitalization threshold for capitalizing property and equipment as well as buildings and building/land improvements. The threshold for capitalizing property and equipment is \$5,000 and the threshold for capitalizing buildings/land improvements is \$25,000.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games Powerball, Montana Cash, Montana Millionaire, Mega Millions, Lucky for Life, Big Sky Bonus, and Lotto America are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as unearned income until such time as the tickets become valid for the most current drawing.

Treasure Play revenue is recorded on a daily basis as games are played. Treasure Play games are instant chances for wins, so when these games are played the revenue from these games are earned as played.

Ticket sales for Fantasy Sports games are based upon MCA 23-4-302 and an interagency agreement between the Lottery and the Board of Horse Racing. The Lottery is only a facilitator of these games and charges an administrative fee for this service. The actual sales of these games are not reflected on the Lottery's financial statements as they are not income to the Lottery.

Tickets sales for Sports Bet Montana wagers are recorded as revenue when the specific event for the bet has occurred and become official. All other wagers for future events that are placed by players are recorded as unearned revenue until such time the specific event has happened and is official.

Classification of Revenues. The Lottery has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have characteristics of exchange transactions, including (1) ticket sales, net of returns, and (2) retailer license fees and administrative fees in relation to selling lottery tickets.

Non-Operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are investment income/gain or loss on disposition of assets.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the years ended June 30, 2022, and 2021 was \$1,268,488, and \$1,455,275, respectively.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the year ended June 30, 2022, promotional credits resulted in a revenue reduction of approximately \$7,335 and an expense reclassification of approximately \$5,300. For the year ended June 30, 2021, promotional credits resulted in a revenue reduction of approximately \$8,573 and an expense reclassification of approximately \$6,912.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each individual game. Sports Betting prize expense is determined based on each bet and the official results. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts for these games are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all Montana Lottery games is represented in the table below.

	Quarter Ended 6/30/22	Quarter Ended 6/30/21	Year to Date 6/30/22	Year to Date 6/30/21
Lotto	\$146,404	\$115,114	\$ 588,246	\$412,979
Scratch	\$299,146	\$ 18,811	\$ 652,611	\$530,163
TOTALS	\$445,550	\$133,925	\$1,240,857	\$943,142

2. OTHER ACCOUNTING ISSUES

Implementation of GASB 87, Leases. For fiscal year ended June 30, 2022, the Lottery implemented GASB Statement 87, *Leases*, retroactive to the previous year. According to the statement, a lease is a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract, for a period of time, in an exchange or exchange-like transaction. A lease liability is recorded at the present value of payments expected during the lease term; and an intangible right-to-use lease asset is recorded at the sum of the lease liability, certain direct costs, and lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term.

The State uses an estimated incremental borrowing rate as the discount rate for leases unless the rate is explicitly stated in the contract or known. Payments based on future performance are not included in the measurement of the lease liability or lease receivable but recognized as revenue or expense in the period performed. For more information on Lottery's sole lease, see Note 10.

Restatement of Prior Year's Financial Statement. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows were restated for the year ended June 30, 2021. During fiscal year June 30, 2022, the Lottery implemented GASB 87. Since the Lottery reports its financials on a comparative basis, any years prior to implementation that are reported on the financials need to be restated in order to be in conformity.

3. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool; cash on deposit in a revolving account with an approved non-state financial institution; and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	June 30,	
	<u>2022</u>	<u>2021</u>
Short-term investment pool	\$ 25,494	\$ 524,332
Cash on deposit with State Treasurer	2,078,233	2,474,683
Cash in revolving deposit account	200,000	10,000
Petty Cash & Cash On-Hand	200	200
TOTALS	\$2,303,927	\$ 3,009,215

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was \$244,167, and \$79,978 as of June 30, 2022 and 2021, respectively, and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. For the year ended June 30, 2022, receivables include \$7,937,161, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$485 for interest income due from the Montana Board of Investments short-term investment pool. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of June 30, 2022, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to July 1, 2022. The allowance for ticket returns is \$474,260 as of June 30, 2022. The return of vendor fees related to the allowance for returns is \$37,941.

For the year ended June 30, 2021, receivables included \$4,531,710, representing amounts due the Lottery for tickets purchased by retailers. Receivables also include \$69 for interest income due from the Montana Board of Investments short-term investment pool. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables as of June 30, 2021, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to July 1, 2021. The allowance for ticket returns is \$600,184 as of June 30, 2021. The return of vendor fees related to the allowance for returns is \$48,015.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory for years ended June 30, 2022 and 2021 include scratch tickets valued at \$422,293, and \$396,631, respectively, that are stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. For the years ended June 30, 2022, and 2021, supplies inventories totaled \$105,083, and \$128,552, respectively. These inventories are also recorded at cost using the specific identification method.

Other Current Assets. Other current assets include the following:

	June 30,	
	<u>2022</u>	<u>2021</u>
Prepaid Expenses	\$27,018	\$19,809

The prepaid expenses for the year ended June 30, 2022 consisted of \$27,018 for prepaid commissions and vendor fees related to unearned revenue. The prepaid expenses for the year ended June 30, 2021 consisted of \$5,000 for booth fees for upcoming events and \$14,809 for prepaid commissions and vendor fees related to unearned revenue.

Property and Equipment. A summary of property and equipment for the Lottery for both years is as follows:

	June 30, 2020	Additions	Deletions	June 30, 2021
Leasehold Improvements	\$ 98,793	\$ -	\$ -	\$ 98,793
Furniture & Equipment	\$ 630,514	\$ 34,122	\$ -	\$ 664,636
Accumulated Depreciation	\$ (545,566)	\$ (50,875)	\$ -	\$ (596,441)
	June 30, 2021	Additions	Deletions	June 30, 2022
Leasehold Improvements	\$ 98,793	\$ 13,529	\$ -	\$ 112,322
Furniture & Equipment	\$ 664,636	\$ -	\$ (74,871)	\$ 589,765
Accumulated Depreciation	\$ (596,441)	\$ (35,533)	\$ 63,641	\$ (568,333)

Estimated Prize Liability. The estimated prize liability represents the Lottery's estimate of prizes payable related to games in process at year-end based on the predetermined prize structure of each outstanding game.

Obligation to Transfer Funds. The Lottery is required to transfer its net revenue to the Montana State General Fund. The 2019 Legislature passed SB60 which changed the transfer requirements again. Going forward, the Lottery is to transfer a set amount to the STEM scholarship first, and any residual would be transferred to the General Fund. The transfer obligations outstanding at June 30, 2022 were \$5,055,899 to the General Fund and \$375,000 to OCHE. For the year ending June 30, 2021, the obligation outstanding at year end was \$2,605,865 due to the General Fund and \$250,000 to OCHE.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance <u>June 30, 2020</u>	Net Leave <u>Earned/(Used)</u>	Balance <u>June 30, 2021</u>
\$265,798	\$(5,625)	\$260,173
Balance <u>June 30, 2021</u>	Net Leave <u>Earned/(Used)</u>	Balance <u>June 30, 2022</u>

\$260,173	\$17,675	\$277,848
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Long-Term Liabilities. Following are the changes in non-current liabilities for the years ended June 30, 2022 and 2021:

Year ended June 30, 2022					
	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022	Amounts due within one year
Building Lease	\$ 939,708	\$ -	\$ (202,840)	\$ 736,868	\$202,840
Multi-State Prize Liability	\$ 924,365	\$ 56,626	\$ (51,806)	\$ 929,185	\$ -
Accrued Compensated Absences	\$ 147,146	\$ 56,323	\$ (84,515)	\$ 118,954	\$158,894
Net Pension Liability	\$2,448,441	\$ -	\$ (606,915)	\$1,841,526	\$ -
Other Post Employment Benefits	\$ 382,400	\$ -	\$ (22,897)	\$ 359,503	\$ -

Year ended June 30, 2021					
	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Amounts due within one year
Building Lease	\$ -	\$ 1,140,798	\$ (201,090)	\$ 939,708	\$201,090
Multi-State Prize Liability	\$ 979,256	\$ 25,434	\$ (80,325)	\$ 924,365	\$ -
Accrued Compensated Absences	\$ 155,477	\$ 74,295	\$ (82,626)	\$ 147,146	\$113,027
Net Pension Liability	\$1,772,282	\$ 676,159	\$ -	\$2,448,441	\$ -
Other Post Employment Benefits	\$ 118,213	\$ 264,187	\$ -	\$ 382,400	\$ -

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery established this commission at 5% (6% for Sports Betting) of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. In addition, retailers can earn bonus commissions on tickets sold based on incremental sales of scratch and Treasure Play tickets. For the years ended June 30, 2022 and 2021, retailers earned bonus commissions of \$716,140 and \$1,374,623, respectively. For the years ended June 30, 2022 and 2021, total commissions were \$6,728,262, and \$7,549,522, respectively.

4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services, supplies, and materials from other state agencies. These services and materials are detailed below for the fiscal years ended June 30, 2022 and 2021:

Year Ended June 30	2022	2021
Administrative Service Fees	\$ 99,258	\$ 85,699
Audit Fees	95,067	66,652
Computer Fees	118,321	141,977
Insurance	17,595	16,097
Mail Processing Fees	8,001	7,720
Other Expenses	4,557	6,025
Payroll Services	10,323	8,013
Printing	11,460	9,755
Record Retention	1,229	1,170
State Accounting System Support	4,603	3,670
Supplies & Materials	-	3,644
Warrant Writing Services	1,544	1,550
	<hr/> \$371,958	<hr/> \$351,972

5. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the year ended June 30, 2022, the prize expense of \$78,515,723 is 67.66% of net Lottery ticket revenue of \$116,042,988. For the year ended June 30, 2021, the prize expense of \$80,938,948 was 71.03% of net Lottery ticket revenue of \$113,955,164.

6. TRANSFERS OF NET REVENUE

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Beginning in FY2020, Section 23-7-402(3)(a-e), MCA states an established amount will be transferred to the STEM scholarship first, then any residual will be transferred to the General Fund. The established amounts to go to the STEM scholarships are \$500,000 for FY 2020, \$1,000,000 for FY 2021, \$1,500,000 for FY 2022, \$2,000,000 for FY 2023, and \$2,250,000 for FY 2024 and all subsequent fiscal years thereafter.

For the years ended June 30, 2022 and 2021, the net revenue payable to the State General Fund totaled \$15,311,224, and \$11,709,354, respectively. For the years ended June 30, 2022 and 2021, the net revenue payable to the Montana STEM scholarship totaled \$1,500,000, and \$1,000,000, respectively.

7. MULTI-STATE LOTTERY

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Mega Millions, and Lotto America are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with a balance of \$1,052,029 and \$1,068,243 as of June 30, 2022, and 2021, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). A portion of the Powerball Unreserved Account is classified as a current asset which represents an amount expected to be converted into cash and collected from MUSL within the next fiscal year. The balance of these reserve accounts and investment category is as follows:

	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$221,780	\$ 105,909	\$ 327,689
Powerball Set Prize Reserve Account	3,682	139,018	142,700
Powerball Unreserved Account	74,542	48,302	122,844
Lotto America Prize Reserve Account	56,738	111,623	168,361
Mega Millions Prize Reserve Account	<u>30,305</u>	<u>260,130</u>	<u>290,435</u>
Total Reserves	<u><u>\$387,047</u></u>	<u><u>\$664,982</u></u>	<u><u>\$1,052,029</u></u>
Less Current Portion			(65,000)
Non Current Reserves			<u><u>\$ 987,029</u></u>

June 30, 2022

	US Treasury	Federal Agencies	Total
Powerball Prize Reserve Account	\$240,837	\$ 83,086	\$ 323,923
Powerball Set Prize Reserve Account	23,579	129,034	152,613
Powerball Unreserved Account	1,813	142,065	143,878
Lotto America Prize Reserve Account	54,188	78,075	132,263
Mega Millions Prize Reserve Account	<u>-</u>	<u>315,566</u>	<u>315,566</u>
Total Reserves	<u><u>\$320,417</u></u>	<u><u>\$747,826</u></u>	<u><u>\$1,068,243</u></u>
Less Current Portion			(65,000)
Non Current Reserves			<u><u>\$1,003,243</u></u>

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition, the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. Payments made to this fund are considered a portion of prize expense associated with the game.

The Powerball Unreserved Account is a separate account used by a participating Lottery to have MUSL hold funds due to the Lottery. Balances in this account are created when any MUSL jackpot expires and goes unclaimed. Each Lottery is then refunded its pro rata share of the jackpot based on sales during the accumulation of that specific jackpot. This money is then invested in U.S. Treasury securities until withdrawn. Interest earned on the Lottery's share of the fund is added to the Unreserved Account on a quarterly basis. The amount in the Unreserved Account has limited uses and are set and approved by the Board with the stipulation that requests to use the funds are accompanied by certification from the requesting Board Member that the payment is made in conformance with state or jurisdiction law and is related to a MUSL activity.

During fiscal year ended 2022, the Lottery received \$558 in interest, had \$6,147 added into the account due to a Mega Millions redistribution adjustment, and a reduction of \$27,739 for annual dues. During the fiscal year ended 2021, the Lottery received \$1,041 in interest, and had \$19,019 added into the account due to a Mega Millions redistribution adjustment.

The Lotto America Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Lotto America game. The Lottery contributes to the reserve through the 50% set aside for

prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 50% set aside for prizes for Mega Millions plays and 50% for Megaplier plays. Payments made to the reserve are considered a portion of the prize expense related to the game.

8. RELATED PARTY TRANSACTIONS

All lotteries that offer multi-state games transact with the Multi-State Lottery Association (MUSL) which requires the directors from each of the states to be on the MUSL board of directors. The Director of the Montana Lottery is on this board along with other directors of other states. The Director of the Lottery is in a position to vote and have influence for both MUSL and the Montana Lottery who have significant transactions between each other.

As described in Note 7 above, the Lottery has prize reserves with MUSL in the amounts of \$1,052,029 and \$1,068,243 for years ended 2022 and 2021, respectively. These are monies that are assets to the Lottery and would be transferred over if the lottery were to quit any of the multi-state games.

Weekly, MUSL collects each state's share of prize expenses to go towards respective jackpots. If a state has a large enough amount/number of winners for any particular draw, MUSL would then reimburse any state for the excess amount of prizes paid out. In FY2022, the Lottery paid MUSL \$7,257,268 for its share of prizes and received reimbursements for prizes in the amount of \$2,354,374. In FY2021, the Lottery paid MUSL \$7,685,604 for its share of prizes and received reimbursements for prizes in the amount of \$749,783.

9. GAMES

Currently, Montana Lottery games are Scratch ticket games and six Lotto games referred to as Powerball, Montana Cash, Lotto America, Mega Millions, Lucky for Life, and Big Sky Bonus. The Lottery also offers Treasure Play, a line of instant terminal-issued games with pre-determined odds, and Montana Millionaire, a limited-edition Lottery game. The Lottery was facilitating Fantasy Sports games on behalf of the Board of Horse Racing. Until July of 2021, the Lottery was selling Montana Sports Action Fantasy Football and Fantasy Racing games. The Lottery also implemented Sports Bet Montana which is a sports wagering game.

Scratch ticket games provide players the opportunity to win instantly by scratching the latex covering to reveal a prize. The lottery sells tickets for \$1, \$2, \$3, \$5, \$10, and \$20. Cash prizes range from \$1 to \$500,000, plus specialty prizes for certain games.

The Powerball game allows players a chance to win a minimum parimutuel jackpot of \$20 million. A player must match all six numbers to win the jackpot. Players also win prizes ranging from \$8 to \$2 million for matching fewer than all six numbers. Drawings are held three times weekly on Monday, Wednesday and Saturday nights. Powerball is offered in 48 lottery jurisdictions including Montana. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing, creating a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional \$1 per play, Power Play doubles the Match 5 prize from \$1 million to \$2 million and increases other prizes as well. Each Powerball prize (except for the jackpot and the Match 5 prize) increases by 2x, 3x, 4x, 5x, or 10x with Power Play. Power Play became part of the base game in July 2022. At the same time, the Lottery added Double Play ®. This optional add-on uses the same numbers in a separate drawing with separate prize levels up to \$10 million.

The Montana Cash game allows players the chance to win a minimum parimutuel jackpot of \$40,000. Players select five numbers from a field of 45 and must match at least two out of five to win a prize. Matching 2 of 5 wins \$1, 3 of 5 wins \$5, and 4 of 5 wins \$200. The Lottery added a second jackpot for this game called Max Cash. Max Cash is a separate jackpot that grows based on the sales for adding an extra dollar to the normal Montana Cash ticket. It is only hit when a player wins the regular jackpot and purchased the Max Cash add on. The drawings are conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all five numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

Mega Millions is a multi-state game that allows players to win a minimum parimutuel jackpot starting at \$20 million. If no one wins the jackpot, the jackpot continues to grow. Mega Millions went on sale March 1, 2010, in Montana. To win the jackpot, players must match all six numbers drawn; other prizes range from \$2 to \$1,000,000. For an additional \$1 per play, Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four, or five. Drawings are held each Tuesday and Friday night.

Lucky for Life debuted January 2015. Lucky for Life is a multi-state game that allows players to win a top prize of \$1,000 a day for life. The second prize is \$25,000 a year for life. This pari-mutuel game has a set top prize and tickets cost \$2 each. Players select five numbers from a field of 48 and must match at least the Lucky Ball to win a prize. The drawings are now conducted on a daily basis each night.

Big Sky Bonus debuted April 2016. Big Sky Bonus is a Montana-only game that allows players to win a progressive jackpot. Players select 4 numbers from a field of 31 and must match at least 2 out of 4 to win a prize unless they hit the bonus number which is a 5th number picked out of a field of 16. Matching the bonus number at any time wins \$10. Matching 2 of 4 wins \$2, 3 of 4 wins \$20, and 4 of 4 wins the jackpot. The drawing is held every day at 7:30 p.m. If no ticket matches all 4 numbers, the jackpot rolls over to the next day to create a progressive jackpot.

Lotto America is the newest on-line game for the Lottery. Lotto America allows players in the 13 participating lotteries a chance to win an all-cash pari-mutuel jackpot with a guaranteed minimum of \$2 million. Each time the jackpot is not won, it grows, thus creating a progressive jackpot. Players choose five numbers from 1 to 52, and one Bonus number from 1 to 10. To win the pari-mutuel jackpot, a player must match all six numbers. Drawings are held three times weekly on Monday, Wednesday and Saturday nights. A multiplier called the All Star Bonus can be added to win 2X, 3X, 4X, or 5X to any prize except the jackpot for bigger prizes.

The Treasure Play games are offered on self-serve terminals in taverns and casinos that are licensed to sell Montana Lottery products. Introduced in November 2011, they are a suite of games with a pre-determined prize structure like a Scratch game. Players can tell instantly if they have won a prize. The tickets sell for \$1, \$2, \$3, \$5, \$10, \$20, and \$30. Some games include progressive jackpots.

Montana Millionaire is a seasonal raffle-type game offering a \$1 million top prize. The first offering went on sale October 1, 2007. The lottery has sold the game every winter since. Tickets are sold sequentially and are sold for \$20 each. Early bird drawings for \$100,000 and \$25,000, respectively, will be offered on Thanksgiving weekend and the second week of December to stimulate early sales. There will also be 1,200 \$100 instant winners and 1,800 \$500 instant winners. On December 28, 2022, two \$1 million prizes will be awarded, along with one \$100,000 prize.

The Montana Lottery offered a product line called Montana Sports Action on behalf of the Montana Board of Horse Racing. The product line began in August 2008 with a game called Fantasy Football. To play the game, players choose five offensive players and a defensive unit from the official roster of professional football players and teams. The players can also select a bet amount (\$5, \$10, \$20, \$50, or \$100) which determines the shares of the prize pool players are eligible to win should their team have one of the three highest point totals for the week. Tickets are sold weekly through the professional playoffs, excluding the championship game. A second game called Fantasy Racing was introduced in February 2009 and follows the NASCAR® Sprint Cup Series. Teams are created by selecting a driver from the top nine ranked drivers for the week, three drivers ranked from 10 through 34, and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Like Fantasy Football, players may also choose to purchase a higher-cost ticket to increase the share of the prize pool in the event their team has one of the three highest point totals for that race. Both of these games were discontinued in July 2021.

Sports Bet Montana is the newest of games implemented. In the 2019 legislature, HB725 was passed and set into law sports wagering in the State of Montana. The Lottery implemented the game in March 2020 with ability to bet at a kiosk installed in an authorized location, or wager on a phone application which also has to be done in an authorized location. Players can make plays either on the kiosks or with an account the player has set up. The minimum bet is \$2, the maximum bet is \$1,000, and the maximum prize available is \$100,000. These bets can be for any sports event available through the Lottery and can vary in many types of wagers.

10. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On July 30, 2015 the Montana Lottery Commission approved the award of a five-year contract with Scientific Games International (SGI) for the provision of scratch tickets. The contract is for five years with the option for two additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

SGI, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of \$5,000,000. The Lottery may terminate this contract by providing proper notification to Scientific Games.

On-line Services. On February 13, 2015, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2016. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 8.00% of net weekly Lottery sales of lotto and scratch games. The contract currently has a termination date of March 30, 2023.

11. LEASES/INSTALLMENT PURCHASES PAYABLE

Leases are agreements that grant the State use of property in exchange for payments over a period of time. The Lottery has a lease for the use of a building with no option to purchase.

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective January 1, 2017 through August 2027. The monthly lease payment is \$18,068. The following shows the principal and interest of this lease for the periods referenced;

	Principal	Interest
2023	\$202,840	\$13,976
2024	\$206,213	\$10,603
2025	\$209,641	\$ 7,175
2026	\$213,126	\$ 3,690
2027	\$107,888	\$ 520

12. INVESTMENTS

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). The applicable investment disclosures are described in the following paragraphs.

Multi-State Lottery Association The MUSL investment policy for prize reserve and unreserved funds states that permitted investments "include direct obligations of the United States government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States government, and mutual funds of approved investments".

Short-term Investment Pool The State's Short Term Investment Pool (STIP) is an external investment pool managed and administered under the direction of the Montana Board of Investments as statutorily authorized by the Unified Investment Program. It is a commingled external investment pool and participants may request for redemption on a daily basis. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment.

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation, i.e., not make timely principal and interest payments. The STIP securities have credit risk as measured by major credit rating services, however, the pool is not rated. The Lottery does not have a policy regarding credit risk

Per MUSL, for 2022 the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust. In this trust, 60% was invested in Federal Agencies; another 7% was invested in the First American Government Obligation Fund which is used for overnight investing and does not have a rating from S&P or Moodys, etc. However, it is a very conservatively managed vehicle, investing exclusively in short-term U.S. government securities. Another 27% was invested in a short-term Treasury Bill, and the other 6% of the prize reserves are invested in Federal Agency repurchase agreements secured by U.S. government securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party.

The MUSL prize reserves are held in the Montana Winners Trust using policies set forth by the MUSL board regarding policies for the type of securities, as well as the custody, trading, and the use of proceeds of the securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Because STIP is a pooled investment, this risk does not apply. Because the MUSL reserves are also a pooled investment, this risk does not apply to them either.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Lottery does not have any authority or a policy regarding the investment portfolios.

The MUSL prize reserves are invested through the Montana Winners Trust with daily liquidity, and therefore, have low interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2022, the duration for the U.S. Government Treasury securities was a blended rate of 1.54 years.

The STIP securities are invested in various bond pools and investment portfolios which are liquid on a daily basis. Therefore, STIP itself, does have low risk. The duration for this pool as of June 30, 2022 is 68 days.

According to the STIP Investment Policy, "the STIP portfolio will minimize interest rate risk by:

- 1) Structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby normally avoiding the need to sell securities on the open market prior to maturity;
- 2) Maintaining a dollar-weighted average portfolio maturity (WAM) for 115 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities); and
- 3) STIP will maintain a reserve account."

13. FAIR VALUE MEASUREMENT

The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

Level 3 – Prices are determined using unobservable inputs.

Investments Measured at Net Asset Value

		Fair Value Measurements Using		
	June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservab le (Level 3)
<u>Investments by Net Asset Value</u>				
Short Term Investment Pool (STIP)		\$25,494		
Total Investments by net asset value level		\$25,494	\$_____ -	\$_____ -

Investments Measured at Net Asset Value

		Fair Value Measurements Using		
	June 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservab le (Level 3)
<u>Investments by Net Asset Value</u>				
Short Term Investment Pool (STIP)		\$524,332		
Total Investments by net asset value level		\$524,332	\$_____ -	\$_____ -

The Short Term Investment Pool (STIP) has a daily redemption frequency and a daily redemption notice period. The fair value of this pool has been determined using the Net Asset Value (or its equivalent).

14. OTHER POST EMPLOYEMENT BENEFITS

General. The State of Montana and the Montana Lottery provide optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions, and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The State and Montana Lottery offer OPEB plans that are not administered through trusts; as such, there are no plan assets accumulated to offset the total OPEB liability.

In accordance with Section 2-18-704, MCA, the State provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS) or various other State retirement systems, and elect to start medical coverage within 60 days of leaving employment. Retirement eligibility criteria differ by State retirement plan.

Plan Description. The State OPEB plans are reported as single employer plans. There are a number of State agencies who are participating employers under this plan. Each participating employer is required to disclose additional information as required per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75).

The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. See the funding policy that follows.

Basis of Accounting. OPEB liability is reported on an accrual basis on proprietary and fiduciary fund financial statements. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Funding Policy. The State of Montana pays for postemployment healthcare benefits on a pay-as-you-go basis. Section 2-18-12, MCA gives authority for establishing and amending the funding policy to the Department of Administration. As of December 31, 2021, the State OPEB plan's administratively established retiree medical premiums vary between \$457 and \$2,172 per month. Retiree dental premiums vary between \$41.10 and \$70.00 per month while vision premiums vary between \$7.64 and \$22.26 per month, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use participating or non-participating providers. Once retiree members become Medicare eligible, the plan automatically processes claim reimbursement as the secondary insurer, even if the member is not enrolled in Medicare. A basic life insurance plan on the life of the retiree is also included with a retiree's core benefits until the retiree reaches age 65 or is eligible for Medicare.

Actuarial Methods and Assumptions. The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions, meaning actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future.

The State's OPEB Plan TOL in December 31, 2020, rolled forward to March 31, 2022, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date	December 31, 2020
Experience study period	January 1, 2018 through December 31, 2020
Actuarial measurement date (1)	March 31, 2022
Actuarial cost method	Entry age normal funding method
Amortization method	Level percent of payroll, open basis
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75

Actuarial assumptions:

Discount rate	3.31%
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Projected payroll increases	2.50%
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Participation:

Future retirees	40.00%
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Future eligible spouses	70.00%
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Marital status at retirement	70.00%
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Mortality – Healthy

Assumed to follow RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality – Disabled

Assumed to follow RP-2000 Disabled Mortality Table , set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow RP-2000 Combined Mortality Table with no projections.

(1) Updated procedures were used to roll forward the total OPEB liability measurement date.

Changes in actuarial assumptions and methods since last measurement date: The discount rate increased from 2.23% to 3.31%.

Changes in benefit terms since last measurement date: None

Sensitivity of the TOL to changes in discount rate. The following presents the TOL of the Lottery's plan, as well as what they would be if calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current discount rate:

	1.0% Decrease (2.31%)	Current Discount Rate (3.31%)	1.0% Increase (4.31%)
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Lottery OPEB

June 30, 2022	\$444,880	\$359,503	\$294,582
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Sensitivity of the TOL to changes in the healthcare cost trend rates. The following presents the TOL of the Lottery plan, as well as what they would be if calculated using healthcare cost trends that are 1-percentage-point lower (5.0%) or 1-percentage-point higher (7.0%) than the current healthcare cost trend rates:

	1.0% Decrease (5.0%)	Current Discount Rate (6.0%)	1.0% Increase (7.0%)
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Lottery OPEB

June 30, 2022	\$284,062	\$359,503	\$463,712
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OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB. For the year ended June 30, 2022, the Lottery's plan's OPEB expense is \$44,983. The Lottery's proportionate share of the State's total OPEB liability is \$359,503 which is 0.2994% of the total State's OPEB liability at year end.

At June 30, 2022, the Lottery's OPEB plan deferred outflows and inflows of resources are from the following sources:

June 30, 2022

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 45,998
Changes in Assumptions or other inputs	\$298,248	\$142,489
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	\$ 859	\$ -
Total	\$299,107	\$188,487

At June 30, 2021, the Lottery's OPEB plan deferred outflows and inflows of resources are from the following sources:

June 30, 2021

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$45,324
Changes in Assumptions or other inputs	\$290,254	\$38,351
Actual vs. Expected Investment Earnings	\$ -	\$ -
Amounts associated with transaction subsequent to the measurement date of the total OPEB liability	\$ 77	\$ -
Total	\$ 290,331	\$83,675

Deferred outflows of resources and deferred inflows of resources related to TOL will be recognized as OPEB expense as follows:

Year Ended June 30,	Amount Recognized in OPEB expense as an increase or (decrease) to OPEB expense
2023	\$ 9,450
2024	\$ 9,450
2025	\$ 9,450
2026	\$ 9,450
2027	\$ 9,450
Thereafter	\$62,510

15. EMPLOYEE RETIREMENT PLAN

Plan Description. The PERS-Defined Benefit Retirement Plan (DBRP) and Defined Contribution Retirement Plan (DCRP) are administered by the Montana Public Employee Retirement Administration (MPERA), and are a multiple-employer, cost-sharing plans established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). These plans provide retirement benefits to covered State, local governments, certain employees of the Montana University System, and school districts. Benefits are established by state law and can only be amended by the Legislature.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined contribution* and *defined benefit* retirement plans.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits. Member's highest average compensation (HAC)

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Compensation Cap

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011: Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011: Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early retirement:

Hired prior to July 1, 2011: Age 50, 5 years of membership service; or
Any age, 25 years of membership service.

Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Second retirement: (requires returning to PERS-covered employer or PERS service)
Retired before January 1, 2016 and accumulate less than 2 years additional service credit or retired on or after January 1, 2016 and accumulate less than 5 years additional service credit: A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018), no service credit for second employment, start the same benefit amount the month following termination, and Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.

Retired before January 1, 2016 and accumulate at least 2 years of additional service credit: A recalculated retirement benefit based on provisions in effect after the initial retirement, GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

Retired on or after January 1, 2016 and accumulate 5 or more years of service credit: The same retirement as prior to the return to service, a second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date, and GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

- 3% for members hired **prior to** July 1, 2007
- 1.5% for members hired **on or after** July 1, 2007
- Members hired on or after July 1, 2013:
 - (a) 1.5% for each year PERS is funded at or above 90%;
 - (b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - (c) 0% whenever the amortization period for PERS is 40 years or more.

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the member's benefit.

Overview of Contributions.

Rates are specified by Montana Statute and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State Legislature has the authority to establish and amend contribution rates.

Member contributions to the system: Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.

Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

Employer contributions to the system: Effective July 1, 2014, following the 2013 Legislative session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions, including the 0.27% added in 2007 and 2009, will terminate on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required. The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers' reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

Special Funding: Per Montana law, state agencies paid their own additional contributions. The employer paid contributions are *not* accounted for as special funding for state agencies but are reported as employer contributions.

Stand-Alone Statements. The PERS financial information is reported in the Public Employees' Retirement Board's *Annual Comprehensive Financial Report* (ACFR) and the GASB 68 Report for the fiscal year ended. It is available from the PERB at PO Box 200131, Helena MT 59620-0131, 406-444-3154.

ACFR information including the stand alone financial statements can be found at the MPERA's website https://mpera.mt.gov/_docs/CAFR/FY2022-ACFR.pdf. The latest actuarial valuation and experience study can be found at the MPERA's website, <http://mpera.mt.gov/actuarialValuations.asp>.

Actuarial Assumptions. The Total Pension Liability as of June 30, 2021, is based on the results of an actuarial valuation date of June 30, 2020, using the following actuarial assumptions, applied to all periods included in measurement. After the member has completed 12 full months of retirement, the member's benefit increases by applicable

percentage (provided below) each January, inclusive of all other adjustments to the member's benefit. Among those assumptions were the following:

- General Wage Growth 3.50% (includes Inflation at 2.40%)
- Merit Increases 0% to 4.80%
- Investment Return (net of admin expense) 7.06%
- Admin Expense as a % of Payroll 0.28%
- Postretirement Benefit Increases;
 - (a) 3% for members hired **prior** to July 1, 2007,
 - (b) 1.5% for members hired between July 1, 2007, and June 30, 2013;
 - (c) 1.5% for members hired after July 1, 2013

For each year PERS is reduced by 0.1% for each 2.0% PERS is funded below 90%. 0% whenever the amortization period for PERS is 40 years or more.

Mortality assumptions among contributing members, service retired members and beneficiaries based on RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males. Mortality assumptions among Disabled Retirees are based on RP-2000 Combined Mortality Tables with no projections.

Discount Rate. The discount rate used to measure the Total Pension Liability was 7.06%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under Montana Code Annotated. The State contributes 0.10% of salaries paid by local governments and 0.37% paid by school districts. In addition, the state contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	3.0%	(0.33%)
Domestic Equity	30.0%	5.90%
International Equity	17.0%	7.14%
Real Assets	5.0%	4.03%
Private Investments	15.0%	9.13%
Real Estate	9.0%	5.41%
Core Fixed Income	15.0%	1.14%
Non-Core Fixed Income	6.0%	3.02%
Total	100.0%	

The long-term rate of return as of June 30, 2021, was calculated using the average long-term capital market assumptions published in the *Survey of Capital Market Assumptions 2021 Edition* by Horizon Actuarial Service LLC, yielding a median real return of 4.66%. The assumed inflation is based on the intermediate inflation assumption of 2.40% in the *2021 OASDI Trustees Report* used by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.06%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2021, are summarized in the previous table.

The following presents the employer's sensitivity of the Net Pension Liability to the discount rate in the table below. A small change in the discount rate can create a significant change in the liability. The Net Pension Liability was calculated using the discount rate of 7.06%, as well as what the Net Pension Liability would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

Sensitivity Analysis.

Employer Net Pension Liability	1.0% Decrease (6.06%)	Current Discount Rate	1.0% Increase (8.06%)
June 30, 2022	\$2,923,136	\$1,841,526	\$ 934,302
June 30, 2021	\$3,370,135	\$2,448,441	\$1,674,225
June 30, 2020	\$2,546,264	\$1,772,282	\$1,121,848

Summary of Significant Accounting Policies. The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Net Pension Liability. In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective for fiscal year ended June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

Lottery Proportionate Share of Net Pension Liability:

Net Pension Liability as of 6/30/22	Net Pension Liability as of 6/30/21	Percent of Collective NPL as of 6/30/22	Percent of Collective NPL as of 6/30/21	Change in Percent of Collective NPL
\$1,841,526	\$2,448,441	0.101561%	0.092807%	0.100230%

At June 30, 2022, the Lottery recorded a liability of \$1,841,526 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2022, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2011, with roll forward provisions to June 30, 2012. For the fiscal years ended June 30, 2022, and 2021, the employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement periods July 1, 2020 to June 30, 2021. Relative to the total employer contributions received from all of PERS' participating employers, at June 30, 2022, the Lottery's proportion was 0.101561%.

Changes in actuarial assumptions and methods:

The following changes in assumptions or other inputs were made that affected the measurement of Net Pension Liability:

- The discount rate was lowered from 7.34% to 7.06%
- The investment rate of return was lowered from 7.34% to 7.06%

Changes in benefit terms:

There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: Between the measurement date of the collective net pension liability and the State's reporting date, the investment rates of return of PERS-DBRP plan was substantially higher than the investment rates of return assumption. Therefore, the State's proportionate share amounts of the collective pension liability as the State's employer and non-employer contributing entity in applicable plans are expected to decrease.

Recognition of Deferred Inflows and Outflows. At June 30, 2022 and 2021, the Lottery reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

June 30, 2022

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 19,653	\$ 13,331
Changes in Assumptions	\$272,764	\$ -
Actual vs. Expected Investment Earnings	\$ -	\$746,021
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ 36,590	\$ -
Employer contributions subsequent to the measurement date – FY 2020 contributions	\$149,483	\$ -
Total	\$478,490	\$759,352

June 30, 2021

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 39,523	\$ 70,005
Changes in Assumptions	\$212,013	\$ -
Actual vs. Expected Investment Earnings	\$169,545	\$ -
Changes in Proportionate Share and Differences between Employer Contributions and Proportionate Share of Contributions	\$ -	\$ 91,778
Employer contributions subsequent to the measurement date – FY 2019 contributions	\$146,418	\$ -
Total	\$567,499	\$161,783

Amounts reported as deferred outflows of resources related to pensions resulting from the Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in each year end. Other amounts reported as deferred outflows and inflows of resources related to pensions are recognized in the employer's pension expense as follows:

Year Ended June 30,	Amount Recognized in Pension Expense as an Increase or (decrease) to Pension Expense
2022	\$ 31,330
2023	\$ (43,344)
2024	\$(180,183)
2025	\$(238,148)
Thereafter	\$ 0

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montana State Lottery (lottery), as of and for the two years ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the lottery's basic financial statements, and have issued our report thereon dated March 21, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the lottery's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the lottery's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the lottery's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the lottery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 21, 2023

MONTANA STATE LOTTERY

LOTTERY RESPONSE



May 10, 2023

RECEIVED

May 10, 2023

LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
Helena, MT 59620

Dear Mr. Maciver:

I would like to take this opportunity to thank the staff of the Legislative Audit Division for the work performed as part of the Lottery Financial Audit for the two fiscal years ended June 30, 2022. The diligence demonstrated by your staff in reviewing the Lottery's procedures, internal controls, accounting practices and our financial statements should be commended. As always, we feel that the services provided by your agency benefit the Lottery.

The Lottery appreciated the professionalism and fairness exhibited during the audit. Our staff looks forward to working with you and your staff in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott Sales".

Scott Sales
Director
Montana Lottery